

DIRECT TESTIMONY

of

LESLIE PUGH

Accounting Department
Financial Analysis Division
Illinois Commerce Commission

Reconciliation of revenues collected under Coal Tar riders
with prudent costs associated with coal tar clean up expenditures

Ameren Union Electric Company

Docket No. 02-0171

September 5, 2002

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SCHEDULES

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Schedule 1.02 – Adjustment to Disallow the MGP Site Insurance Premium

1 Witness Identification

2 **Q. Please state your name and business address.**

3 A. My name is Leslie Pugh. My business address is 527 East Capitol Avenue,
4 Springfield, Illinois 62701.

5 **Q. By whom are you employed and in what capacity?**

6 A. I am currently employed as an Accountant in the Accounting Department of the
7 Financial Analysis Division of the Illinois Commerce Commission (“ICC” or
8 “Commission”).

9 **Q. Please describe your professional background and affiliations.**

10 A. I earned a Bachelor of Arts degree in Accounting from the University of Illinois at
11 Springfield. I am a Certified Public Accountant, licensed to practice in the State
12 of Illinois. Prior to joining the Staff of the Illinois Commerce Commission (“Staff”),
13 I was engaged in the practice of public accounting.

14 **Q. Have you previously testified before any regulatory bodies?**

15 A. Yes. I have testified on several occasions before the Commission.

16 **Q. What is the purpose of your testimony in this proceeding?**

17 A. The purpose of my testimony is to present the results of my review and to
18 propose an adjustment to Ameren Union Electric Company’s (“AmerenUE” or
19 “Company”) incremental costs as set forth in the Company’s filing, which
20 describes the incremental costs and the recoveries collected under its Riders,

21 Rider E, Gas Environmental Adjustment Clause (“GEAC”), and Rider R, Electric
22 Environmental Adjustment Clause (“EEAC”), for the year ended December 31,
23 2001.

24 Schedule Identification

25 **Q. Are you sponsoring any schedules with your testimony?**

26 A. Yes. I have prepared two schedules that are attached to this testimony:

27 Schedule 1.01 – Cumulative Status of Recoveries and Costs

28 Schedule 1.02 – Adjustment to Disallow the MGP Site Insurance Premium.

29 Incremental Costs

30 **Q. Did you review the incremental costs incurred by AmerenUE under Rider R**
31 **EEAC and Rider E GEAC?**

32 A. Yes. I reviewed the incremental costs incurred by AmerenUE for the year ended
33 December 31, 2001.

34 **Q. According to AmerenUE, what was the total of the incremental costs**
35 **incurred by AmerenUE for the year ended December 31, 2001?**

36 A. AmerenUE’s Exhibit 2.0 shows total incremental costs of \$3,622 for the year
37 ended December 31, 2001.

38 **Q. What is the total amount that AmerenUE should be allowed to recover for**
39 **its incremental costs incurred during the twelve-month period ended**
40 **December 31, 2001?**

41 A. AmerenUE should only be able to recover \$1,325 for costs incurred in 2001. I
42 am proposing an adjustment to disallow the Manufactured Gas Plant (“MGP”)
43 Site Insurance Premium from recoverable costs.

44 **Q. Has AmerenUE also included costs for carrying charges in the 2001**
45 **reconciliation period?**

46 A. No. AmerenUE has not included any carrying charges in the 2001 reconciliation
47 period.

48 Adjustment to Disallow the MGP Site Insurance Premium

49 **Q. Are you proposing any adjustments to the Company’s 2001 total**
50 **incremental costs?**

51 A. Yes. The adjustment of (\$2,297) reflected on Schedule 1.02, line 5, column D,
52 disallows the cost of the amortization of the premium on the MGP Site Insurance
53 Policy. The MGP Site Insurance Policy premium cost has been disallowed
54 because it is not an appropriate cost for the Company to recover through the
55 Riders for the following reasons:

- 56 • It is not an Environmental Adjustment Clause (“EAC”) Cost associated
57 with the Environmental Remediation Activities of the Company, and
- 58 • It is a base rate component and should be recovered through base rates
59 in a general rate proceeding.

60 **Q. Please define the terms EAC Costs and Environmental Remediation**
61 **Activities.**

62 A. For this proceeding, I have used the definition of EAC Costs and Environmental
63 Remediation Activities provided by AmerenUE in its Rider R EEAC and Rider E
64 GEAC:

65 EAC Costs are all costs paid or payable to parties other than Company
66 employees (including legal fees) which are associated with Environmental
67 Remediation Activities. EAC Costs shall also include Allowable Carrying
68 Charges associated with the deferral of EAC Costs. EAC Costs will be
69 credited to reflect proceeds received from insurance carriers or other
70 entities which represent reimbursement of costs associated with
71 Environmental Remediation Activities. EAC Costs shall not include the
72 salaries of Company employees, or any benefits related thereto. EAC
73 Costs for an Annual Recovery Period also shall not include costs accrued
74 under Statement of Financial Accounting Standards No. 5 ("SFAS No. 5")
75 for which no cash expenditure is forecasted during the Annual Recovery
76 Period. Such SFAS No. 5 costs shall be recoverable as EAC costs in the
77 Annual Recovery Period during which cash expenditures are forecasted.
78 Prior to the time that costs accrued under the SFAS No. 5 are recovered
79 under the GEAC, such costs may be deferred in Account 186.

80 Environmental Remediation Activities shall include: (i) direct or indirect
81 activities associated with the investigation, clean-up, sampling, monitoring,
82 testing, removal, and/or disposal of material, residues, wastes or
83 substances related to manufactured gas site operations, the dismantling of
84 facilities used in connection with manufactured gas site operations and/or
85 other activity which generated substances subject to Federal, State or
86 local environmental laws or regulations at sites where manufactured gas
87 operations were at any time conducted; and (ii) litigation or other legal
88 activities related to the activities hereinabove listed, including, but not
89 limited to, litigation or legal activities associated with efforts to recover
90 costs associated with any such activities from insurers or other
91 responsible parties.¹

92 **Q. Explain why Insurance Premiums should not be recovered through the**
93 **Riders.**

¹This definition is from the Company's Rider R, ILL. C. C. Schedule No. 5, Original Sheet No. 121.12, which became effective on August 28, 1996, and from the Company's Rider GEAC, ILL. C. C. No. 6, 1st Revised Sheet No. 24, which became effective on February 24, 1999.

94 A. Insurance premiums are not an environmental remediation activity as defined
95 above. Specifically, insurance policies are not activities associated with the
96 investigation, clean-up, sampling, monitoring, testing, removal, and/or disposal of
97 material, residues, wastes or substances related to manufactured gas site
98 operations. The MGP Site Insurance Policy is a liability policy to cover third-
99 party claims against bodily injury and property damage. Although this is a
100 prudent cost, it is not an environmental remediation activity.

101 The MGP Site Insurance Policy is a twenty-year policy the Company is
102 amortizing over the twenty-year period. Insurance premiums are base rate
103 components to be considered for rate recovery in the context of a test year in a
104 general rate proceeding. Therefore, the insurance premium cost should be
105 recovered in base rates, rather than the Riders.

106 **Q. What type of costs are meant to be recovered through riders?**

107 A. My understanding of riders is that riders are the preferred mechanism to recover
108 prudently incurred coal tar cleanup costs that are fluctuating and difficult to
109 forecast. In the Order on Rehearing for Docket No. 90-0127 regarding recovery
110 mechanisms for coal tar remediation costs, the Commission found:

111 Given the wide variations in and the difficulties in making forecasts of the
112 scope, costs and timing of coal tar investigation and cleanup activities, the
113 Commission believes that a rider provides a more accurate and efficient
114 means of tracking costs and matching such costs with recoveries than
115 would any of the base rate recovery proposals presented in this docket.²

²Order on Rehearing, Docket No. 90-0127, CILCO, August 2, 1991, page 14.

116 The Commission also approved riders as a mechanism for recovery of costs of
117 coal tar investigation and cleanup activities in the North Shore Order Docket No.
118 91-0010. The following analysis was provided by the Commission:

119 Noting the "wide variations in and the difficulties in making forecasts of the
120 scope, costs and timing of coal tar investigation and cleanup activities",
121 the Commission approved a rider on the basis that it "provides a more
122 accurate and efficient means of tracking costs and matching such costs
123 with recoveries than would any of the base rate recovery proposals"
124 presented in the case. Docket No. 90-0127, Order on Reh. at 25.
125 The Commission concludes that proposed Rider 11 will provide an
126 accurate and efficient means of tracking costs and matching such costs
127 with recoveries. As previously stated, the rider employs a rate mechanism
128 like that embodied in North Shore's Rider 15. Rider 11 will allow North
129 Shore to recover the costs of its environmental activities in an
130 administratively-efficient and effective manner as well. For this reason,
131 the Commission approves a rider as the rate mechanism for recovering
132 North Shore's environmental compliance costs.³

133 The Commission reaffirms the findings in the Order on Rehearing for Docket No.
134 90-0127 and the North Shore Order Docket No. 91-0010 in the CILCO, et al.
135 Order Docket No. 91-0080, by noting the following:

136 ...the Commission believes that, as a general rule, rider mechanisms are
137 preferable to other recovery methods. Given the wide variations in and
138 the difficulties in making forecasts of the scope, costs and timing of coal
139 tar investigation and remediation activities, the Commission believes riders
140 can generally be expected to provide a more accurate and efficient means
141 of tracking costs and matching such costs with recoveries than would base
142 rate recovery methods.⁴

143 The MGP Site Insurance Policy premium costs are not difficult to forecast. The
144 MGP Site Insurance Policy premium costs are supported by an invoice which
145 covers a twenty-year period so the annual amount is not unexpected, volatile, or

³Order Docket No. 91-0010, November 8, 1991, page 42.

⁴Order Docket No. 91-0080, CILCO, et al, September 30, 1992, page 65.

146 fluctuating since they are not simply a prediction. “Riders are useful in alleviating
147 the burden imposed upon a utility in meeting unexpected, volatile, or fluctuating
148 expenses.” A. Finkl & Sons Co. v. Illinois Commerce Comm’n, 250 Ill. App. 3d
149 317, 327, 620 N.E. 2d 1141, 189 Ill. Dec. 824 (1993). Therefore, to provide
150 recovery of the insurance premium cost through the coal tar riders would be
151 inappropriate and would provide a double recovery of this cost.

152 **Q. How can there be a double recovery of the MGP Site Insurance Premium**
153 **since those costs were not incurred until 2001, a year of no general rate**
154 **case activity for the Company?**

155 A. Any general rate case for the Company would include in its test year, a normal
156 level amount of insurance premium expenses to be recovered in the rates set for
157 that proceeding. While this specific insurance policy was not purchased at the
158 time of the Company’s last general electric or gas rate proceeding, those
159 revenue requirements included insurance premiums at that time. Therefore, to
160 include this specific insurance premium in the coal tar riders as well as base
161 rates is to allow double recovery.

162 Prudence Review

163 **Q. Did you review the prudence of the incremental costs incurred by**
164 **AmerenUE during the year ended December 31, 2001?**

165 A. In the Order on Rehearing for Docket No. 90-0127, the Commission adopted four
166 standards to review the prudence of expenditures for environmental activities.⁵

167 The Commission affirmed these same four standards in the Order for Docket
168 Nos. 91-0080 through 91-0095 (Consolidated).⁶ I based my evaluation of the
169 Company's incremental costs for environmental activities on the following four
170 standards:

- 171 1) reasonable and appropriate business standards,
- 172 2) the requirements of other relevant state and/or federal authorities,
- 173 3) minimization of costs to ratepayers, consistent with safety, reliability, and
174 quality assurance, and
- 175 4) facts and knowledge the Company knew or reasonably should have
176 known at the time the expenditures were made.

177 **Q. As a result of your review, did you discover any incremental costs that**
178 **were incurred by AmerenUE during the year ended December 31, 2001, that**
179 **did not meet the previously listed standards of prudence?**

180 A. No. Other than the one adjustment I am proposing, no other costs have come to
181 my attention to indicate that any of the remaining incremental costs incurred by
182 AmerenUE during the year ended December 31, 2001, do not meet the four
183 previously listed standards of prudence.

⁵Order on Rehearing, Docket No. 90-0127, Central Illinois Light Company, August 2, 1991, pages 25 and 26.

⁶Order, Docket Nos. 91-0080 through 91-0095 (Consolidated), Central Illinois Light Company et al, September 30, 1992, pages 78 through 81.

184 **Q. Has AmerenUE prepared any additional information pertaining to the**
185 **prudence of its Environmental Activities?**

186 A. Yes. In response to Staff Data Requests SDR-001 through SDR-022,
187 AmerenUE provided additional information on prudence. AmerenUE should
188 enter its responses to SDR-001 through SDR-022 into the evidentiary record in
189 this proceeding.

190 **Q. Are there additional responses that AmerenUE should enter into the**
191 **evidentiary record?**

192 A. Yes. In AmerenUE's prior reconciliation of revenues collected under its coal tar
193 rider, Docket No. 01-0381, attached to the initiating Order was a list of questions
194 prepared by Commissioner Kretschmer to which AmerenUE was instructed to
195 respond and to include in the record. In the current proceeding, AmerenUE has
196 responded to the same questions and, likewise, should enter these as evidence
197 in the proceeding. These questions are answered in the responses to Staff Data
198 Requests LAP-016 through LAP-025.

199 Recoveries

200 **Q. During the year ended December 31, 2001, what was the total amount**
201 **collected or refunded through AmerenUE Riders?**

202 A. AmerenUE had total refunds to ratepayers of \$5,384 through its Riders during
203 the year ended December 31, 2001.

204 **Q. Did AmerenUE make these refunds in accordance with the terms of its**
205 **Riders?**

206 A. Yes.

207 **Q. What is the total cumulative amount of recoveries collected by AmerenUE**
208 **since the inception of Riders EEAC and GEAC?**

209 A. AmerenUE has collected a total of \$481,262 as presented on Company Exhibit
210 3.0.

211 Conclusion

212 **Q. In conclusion, what is your recommendation?**

213 A. I recommend that the Commission accept the reconciliation of revenues collected
214 under the Coal Tar Riders' factors with the actual cost of coal tar clean up
215 expenditures as presented on ICC Staff Exhibit 1.00, Schedule 1.01, Cumulative
216 Status of Recoveries and Costs reflecting an over recovery of \$1,216.

217 **Q. Does this question end your prepared direct testimony?**

218 A. Yes.

Ameren Union Electric Company
 Cumulative Status of Recoveries and Costs
 For the Year Ended December 31, 2001

Line No	Description (A)	Cumulative Totals Per Draft Order Docket No. 01-0381 (B)	2001 Actuals Per UE (C)	Cumulative Totals Per UE (Col B+Col C) (D)	Staff Adjustment (E)	Cumulative Totals Per Staff (Col D+Col E) (F)
1	EEAC/GEAC Recoveries	\$ 486,646 (1)	\$ (5,384) (1)	\$ 481,262	\$ -	\$ 481,262
2	Insurance Recoveries	-	-	-	-	-
3	Total Revenues	\$ 486,646 (2)	\$ (5,384) (2)	\$ 481,262	\$ -	\$ 481,262
4	Total Costs	478,721 (3)	3,622 (3)	482,343	(2,297) (4)	480,046
5	Over (Under) Recovery	\$ 7,925 (5)	\$ (9,006) (5)	\$ (1,081)	\$ 2,297 (5)	\$ 1,216

- (1) Source: UE Annual Report, Exhibit 3.0.
- (2) Source: Sum of Line 1 and line 2.
- (3) Source: UE Annual Report, Exhibit 2.0.
- (4) Source: ICC Staff Exhibit 1.00, Schedule 1.02, line 5, column D.
- (5) Source: Line 3 less line 4.

Ameren Union Electric Company
 Adjustment to to Remove MGP Site Insurance Premium
 For the Year Ended December 31, 2001

<u>Line No</u>	<u>Description</u> (A)	<u>Per Staff Amount</u> (B)	<u>Per Company Amount</u> (C)	<u>Staff Adjustment</u> (Col B - Col C) (D)
1	Amortize MGP Site--October 2001	\$ -	\$ 766	(1) \$ (766)
2	Amortize MGP Site--November 2001	-	766	(1) (766)
3	Amortize MGP Site--December 2001	-	766	(1) (766)
4	Philip Environmental Services Corp.	1,325	1,325	(2) -
5	Total Costs	<u>\$ 1,325</u>	<u>\$ 3,622</u>	(3) <u>\$ (2,297)</u>

(1) Source: UE DR LAP-004 response, MGP Summary, Cleanup of Alton Gas Site.

(2) Source: UE DR LAP-027 response.

(3) Source: Sum of Line 1 through Line 4.